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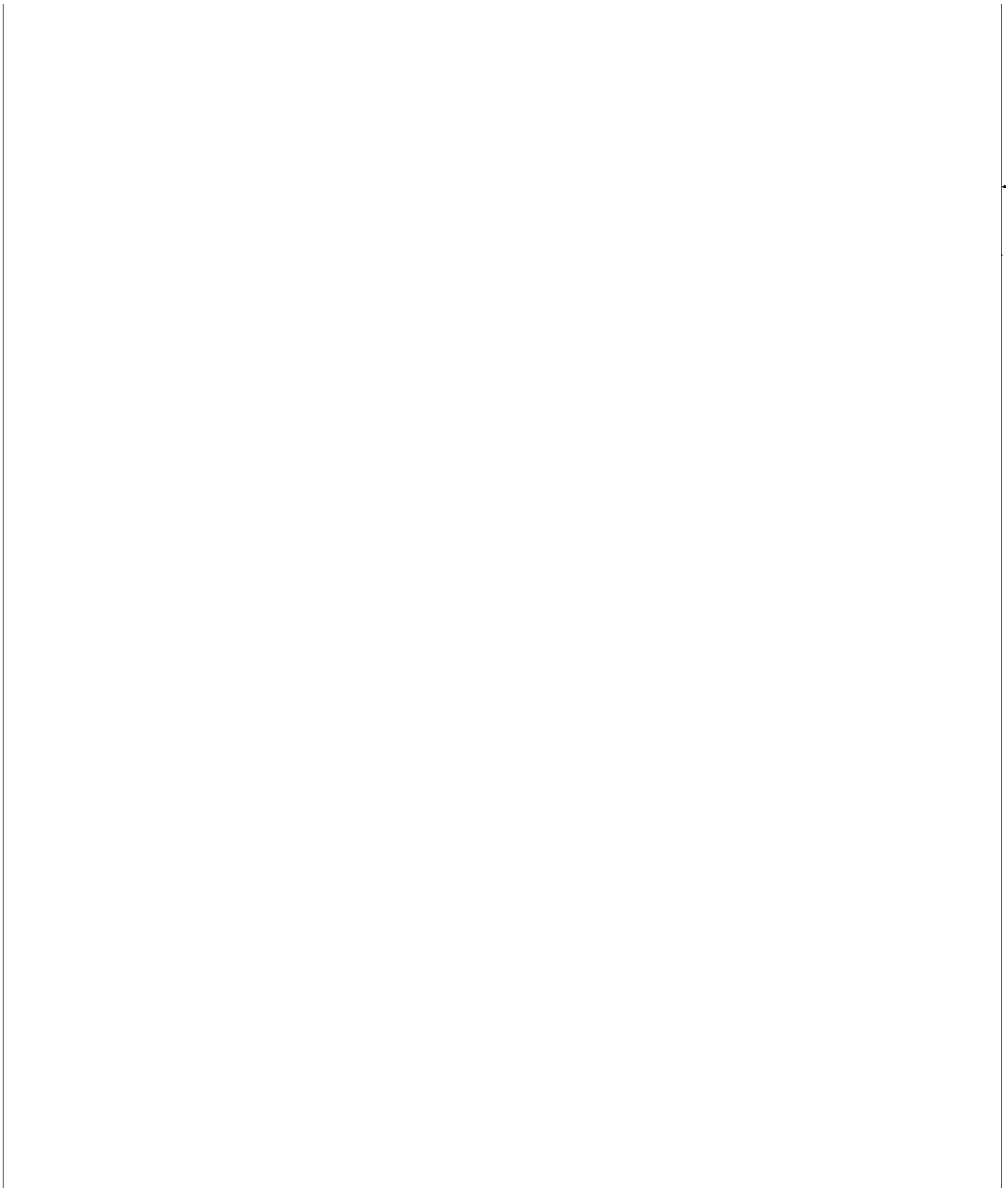

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SITUATION REPORT

IRAN

The Revolutionary Council's unwillingness to make a decision yesterday on transferring the hostages probably reflects the rivalries within the Council and concern over Ayatollah Khomeini's attitude on the issue.

President Bani-Sadr said yesterday the Ayatollah has not yet made his position clear on the transfer and indicated Khomeini will have to endorse any Council decision. The militants have not made a definitive statement, but they would defer to the Ayatollah.

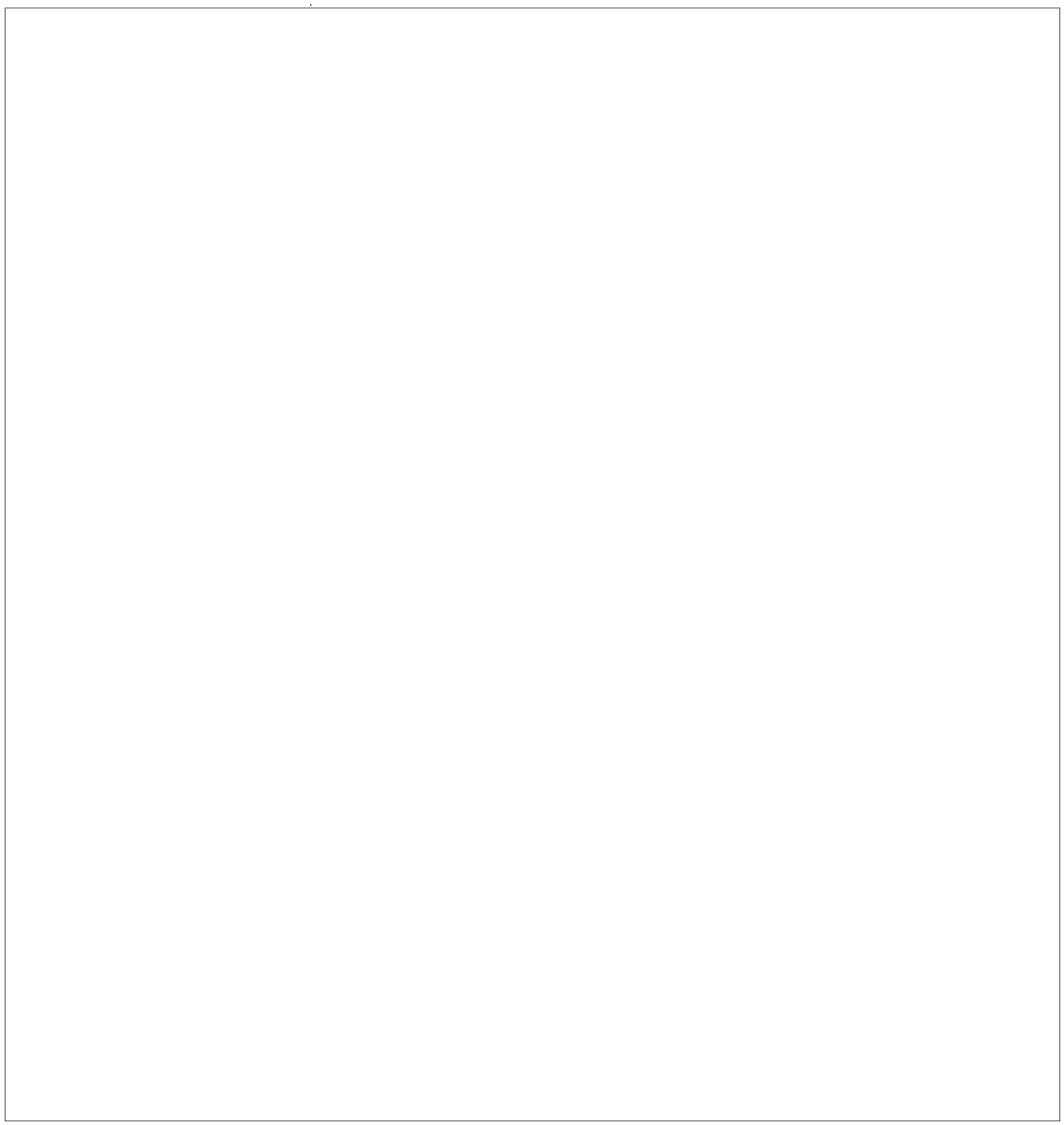
Hardliners in the Council--led by Ayatollah Beheshti--almost certainly are pressing for more US concessions and may insist that Khomeini rule on this important decision. Beheshti's major interest is in weakening Bani-Sadr rather than in the hostage issue itself, but even he is likely to bow to Khomeini's wishes. Khomeini may simply prefer to avoid a decision now since he has already said that the National Assembly will ultimately decide the fate of the hostages.

More Problems with Iraq

Iranian-Iraqi relations are deteriorating sharply in the aftermath of the attempted assassination of Iraqi Deputy Premier Tariq Aziz on Tuesday; over 60 persons were wounded in the incident. President Saddam Husayn Wednesday blamed Iran and declared that Iraq will not be intimidated.

Since the attack, the longstanding propaganda feud between the two states has intensified further, and the Iranians have resumed harassment of Iraqi diplomats. Saddam Husyan's personal attention to the incident and the extensive publicity it is receiving in Baghdad suggest that Iraq will soon retaliate.

Foreign Minister Ghotbzadeh has denied any Iranian involvement, but Iraqi charges of Iranian complicity in the attack may be merited. The Tehran press reports that an extremist Iranian group headed by Ayatollah Khalkhali has claimed credit for the attack.



USSR: Decline in Oil Exports to West

Soviet hard currency earnings from oil exports rose 60 percent in 1979 as a result of higher prices, despite a sharp drop in the volume of exports.

This year, volume and revenue are expected to drop, but Moscow will be able to absorb the decline without cutting back on imports or borrowing heavily in the West.

We estimate that Soviet oil exported to non-Communist countries for hard currency last year dropped by 260,000 barrels per day to under 1 million barrels per day. Despite this decrease, higher prices pushed up hard currency earnings by over $3 billion to about $9 billion. Moscow's moves to reduce oil exports to non-Communist countries were spurred by a slowdown in Soviet oil production, higher than expected domestic demand, and the rise in world oil prices that allowed the Soviets to increase revenues and still cut sales.

We anticipate that Moscow's oil exports to non-Communist countries in 1980 will fall by at least 400,000 barrels per day and this will most affect hard currency buyers.

Moscow also is demanding stiffer terms for its reduced volume of oil. Crude oil sold to France, for example, will be priced according to a formula based on one-third of the spot-market rates and two-thirds the Organization of Petroleum Exporting Countries' price.

The USSR can readily absorb the hard currency loss that will result in 1980 from a major decline in oil exports. We estimate that Moscow will need oil export earnings of between $4 billion and $6 billion in 1980 to balance its current account. To do this, at an average selling price for crude oil and oil products of $37 per barrel, the Soviets would need to market less than half of the volume sold for hard currency last year.

NORTH KOREA - SOUTH KOREA: Infiltration Implications

Despite the recent infiltration attempts into South Korea, Pyongyang does not appear to have abandoned its "peace offensive" or to have shifted to a more adventurist policy toward South Korea.

Armed infiltration attempts across the Demilitarized Zone and along the South Korean coast have occurred periodically over the past several years. The North seems to value them for their psychological impact--they help keep the South off balance--and for the limited intelligence information acquired. The operations last week also may have been in reaction to the joint US - South Korean military exercise, "Team Spirit," which began its field phase on 21 March.

The South Koreans have in the past viewed the agent activities primarily as an annoyance. When Seoul broke off the political talks at Panmunjom last spring, it did so because Pyongyang refused to deal with the South on a strictly government-to-government basis. South Korea is now demanding, however, that the North avoid such provocations in exchange for progress in the current round of talks.

North Korea views the dialogue as a useful way to advance a number of important interim objectives, such as further US troop withdrawals, that will facilitate achievement of Pyongyang's ultimate goal--reunification on its own terms. Pyongyang has made some significant concessions to get the talks under way, and it has hinted that it may be planning some additional conciliatory moves to sustain momentum in the dialogue.

EL SALVADOR: Leftist Moves

Radical leftists are using legitimate means to broaden their political support, while at the same time planning more terrorist activities despite continuing guerrilla losses at the hands of the security forces.

The formation this week of a leftist Democratic Front appears to be the beginning of formal cooperation between extremists and factions of the moderate left--groups the present junta had hoped eventually to attract in order to strengthen its political base. The new Front includes a breakaway group from the cogoverning Christian Democratic Party, a moderate-left group that participated in the previous junta and two militant leftist labor organizations.

A spokesman for the Front said that it would collaborate with the revolutionary alliance of Communist and guerrilla front groups launched in January. These moves advance extremist efforts to unify the left and coopt democratic forces.

Christian Democratic Party and junta member Duarte admitted this week that a political solution for El Salvador probably is not possible without the cooperation of the leftist popular organizations. He conceded that the government does not have complete control over the security forces and that some officers are receiving salaries from rightwing terrorist organizations--which probably pose the major short-term threat to the government.

Because of the turmoil, the junta has extended the state of siege for 30 days, and aggressive security force operations are continuing. In a typical five-day period last week, small-scale armed forces operations resulted in 55 dead, nearly twice the number attributed to leftwing assassinations in the same period.

The leftists failed to mobilize a general strike in memory of Archbishop Romero last week, but they may try again after Easter.

EC-CEMA: High-Level Talks Rejected

The EC Commission's refusal last week to hold high-level negotiations with the Council for Mutual Economic Assistance probably reflects irritation with the Soviet invasion of Afghanistan but does not signal increased EC willingness to participate in costly anti-Soviet sanctions.

EC Foreign Affairs Commissioner Haferkamp on 28 March notified the CEMA Executive Secretary that the EC had ruled out political talks that the East was expected to propose, but left open the possibility of further talks at the expert level. Haferkamp claimed that refusal by CEMA to compromise would make high-level talks unprofitable. The EC and CEMA are at particular odds over whether an agreement between them would address trade matters or apply to Berlin.

Italy and the UK also reportedly opposed the talks, largely because of Soviet intransigence on Afghanistan. Although the French were primarily dissatisfied with the progress of the talks, they also were reacting to the Soviets' rejection of their proposal for the neutralization of Afghanistan.

The West Germans--anxious to preserve links to Eastern Europe--might have supported high-level talks, but probably did not want to appear more accommodating to the Soviets than the other EC states. Bonn also may have been reacting to the recent Soviet rejection of any extension of an EC-CEMA agreement to Berlin.

Because the CEMA negotiations deal only with future economic ties, their suspension would be a lower cost way of cooling relations with the Soviets than the EC's limited concessions to the Yugoslavs and Romanians last month. The EC is still unwilling to take more costly direct economic measures against the Soviet Union.

EAST GERMANY - WEST GERMANY: Ransom System Renewed

After a hiatus of five months, the East Germans have quietly resumed releasing political prisoners to West Germany in exchange for monetary payment.

East Germany's sensitivity to the bad publicity generated by such trafficking probably has been outweighed by the need to alleviate its chronic balance-of-payments deficit. The resumption further confirms the wish of both German states to preserve elements of their bilateral relations despite the general decline in contacts between Eastern and Western Europe.

Since the East Germans built the Berlin Wall in 1961, they have released 16,400 political prisoners in return for West German payments of over $500 million. Bonn had budgeted at least $55 million for this purpose in 1980 when the East Germans suddenly stopped the process last October, the day before an amnesty was declared to mark the 30th anniversary of the East German regime. East German leader Honecker probably hoped to improve his country's reputation--particularly because East Germany was soon to have a seat on the UN Security Council.

East German interest in securing additional ransom money probably increased after Chancellor Schmidt reduced planned payments to East Germany for a large transportation improvement program from over $1 billion to only $285 million.

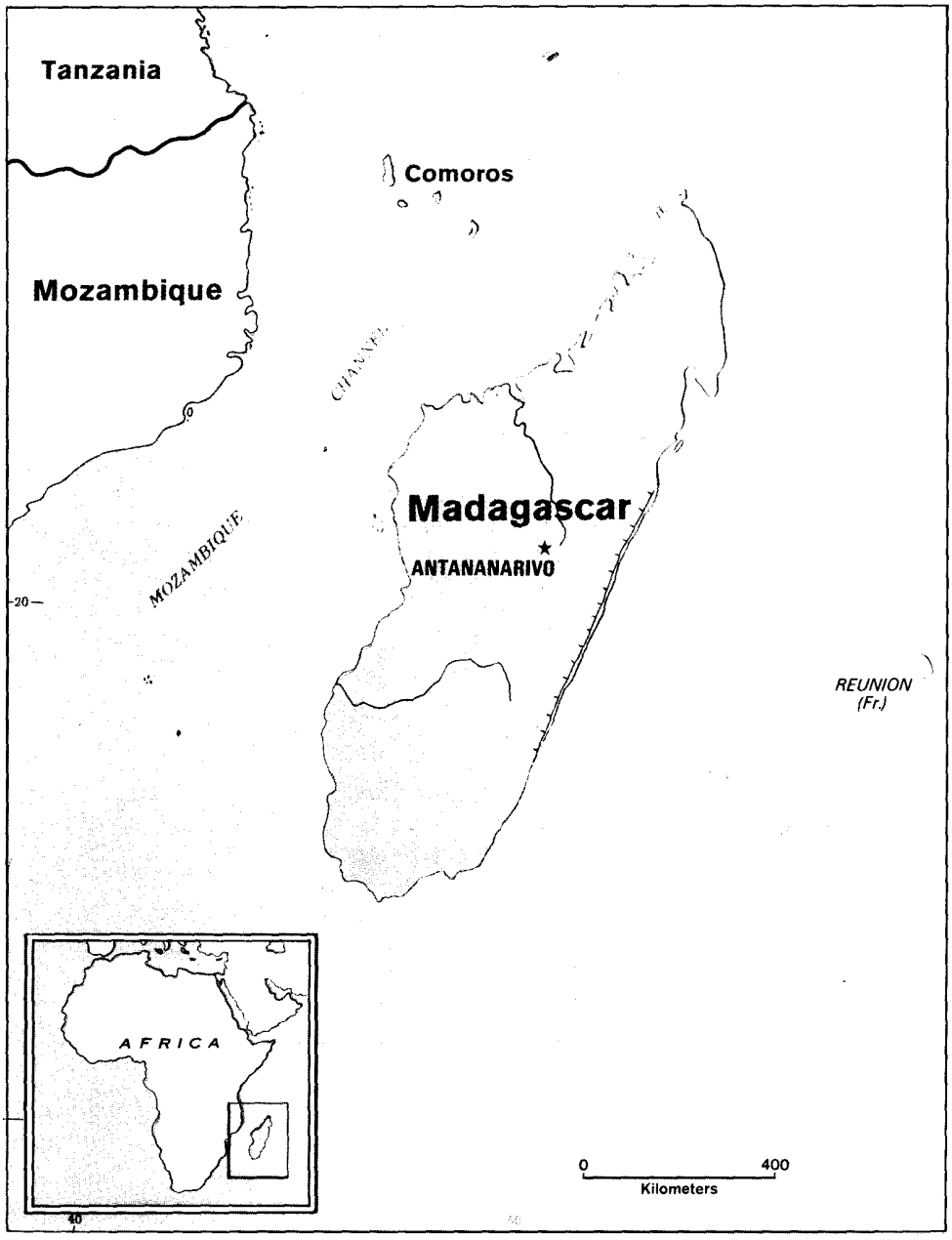
BELGIUM: Possible Government Crisis

The linguistic controversy is again threatening to bring down Prime Minister Martens' government.

The Belgian upper house failed yesterday to pass the second stage of Martens' three-stage plan for granting greater autonomy to Belgium's three regions. Flemish and French-speaking leaders still disagree on how to guarantee the rights of the Flemish minority in Brussels and the French minority in the city's suburbs.

Although Martens subsequently submitted his resignation to King Baudouin, the King refused to accept it and urged the Prime Minister to continue his attempts to push the bill through. The Cabinet continues to support Martens, and most political leaders want to prevent a crisis that could lead to new elections. Martens' chief task is to calm the fears of fellow Flemish Social Christians, led by archrival and former Prime Minister Leo Tindemans.

A governmental collapse, especially if followed by new elections, would almost certainly mean postponement beyond June of a final Belgian decision on deployment of theater nuclear weapons. Even if a crisis is averted, continued haggling over the linguistic problem may prevent the government from attending to the TNF question promptly.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USSR-MADAGASCAR: MIG-21 Delivery

on Tuesday Madagascar received its first jet fighter aircraft when the USSR delivered six MIG-21s. Madagascar agreed in 1978 to purchase 12 of the aircraft for delivery by 1982. The MIG-21s eventually will replace MIG-17s on loan from North Korea, which also has provided the pilots to fly them. Ten to 12 Madagascan pilots returned last November from training on MIGs in the USSR. Since 1975, the Madagascan Government also has acquired other military equipment from the Soviets, who are attempting to increase their influence and gain access to port facilities in the Indian Ocean area.

MEXICO: Decision on GATT

President Lopez Portillo's recently announced decision to postpone indefinitely joining the General Agreement on Tariffs and Trade reflects his commitment to steer a political course independent of the US and a determination to use oil to obtain even better bilateral trade deals. The timing of the announcement was a surprise as Mexico had until May to decide. Lopez Portillo probably wanted to avert domestic criticism of increasing oil production, which favors US interests.

The decision probably will not greatly affect US-Mexican trade in the short term. Since last year's trade agreement with the US has now lapsed, Mexico may have to forgo only about $20 million in tariff concessions. Mexico's Under Secretary of Commerce indicated that the US will be the first country approached for a new bilateral accord. Mexico believes that US interest in oil and illegal migration will make it more responsive to Mexican problems; the recent US ruling on winter vegetables in favor of Mexico will strengthen this perception.

PANAMA: President's Speech

President Royo's major policy address on Tuesday attributed Panama's growing economic woes to external financial pressures and historic US domination, and charged the US with Canal treaty violations. Royo's failure to offer remedial economic measures and his aggressive tone indicate a firmness in the face of domestic opposition and signal Panama's intention of using Washington as a scapegoat to divert attention from its domestic problems.